IMC/CB
7G07

OGI International Situation Report No. 8
ALA/MCD/MX [redacted]
1 February 1983

25X1

DEVELOPMENTS IN MAJOR COUNTRIES

Mexico

A Mexican financial delegation, led by Treasury Secretary Silva Herzog, spent the last two weeks seeking additional credits and trying to drum up support for Mexico's debt rescheduling proposal. According to embassy reporting, the Mexican officials, meeting with government and banking officials in the US, Europe, and Japan, asked commercial banks for $300 million needed to complete Mexico's $5 billion loan, and also requested additional funds from official export credit agencies. The Mexican officials also lobbied major foreign creditors for an early agreement on the $21 billion in public-sector debt restructuring that Mexico City requested in December. We expect most of Mexico's creditors to accept the government's proposal for public-sector debt rescheduling, although they are likely to press for higher interest, new collateral and, perhaps, a longer term stabilization agreement that would restrict Mexican economic policy initiatives throughout most of the seven-year rescheduling period. [redacted] 25X1

While on the tour, Mexican officials also tried to reassure international creditors that they had taken into consideration the possibility of lower oil revenues when drawing up the 1983 budget. Press reports cite Mexican financial officials as saying

ALA M 83-10019

they deliberately overestimated their 1983 interest payments at $12 billion. With the recent drop in the London Interbank Offer Rate (LIBOR) and the US prime rate, we estimate that Mexico's effective interest rate has fallen from 14.8 percent in 1982 to approximately 12.8 percent this year. On an annual basis, with oil exports at 1.5 million b/d, Mexico would lose $550 million for every $1 drop in the price of a barrel of oil, while Mexican treasury officials estimate they would save $700 million annually for each 1-percentage-point decline in interest rates. With the potential for a substantial drop in oil earnings not offset by falling interest payments, a fall in the world market oil price would severely limit de la Madrid's economic policy alternatives and could result in a further decline in economic activity accompanied by mounting pressure to abandon austerity. 25X1

In other financial developments:

-- The US Embassy reports that the peso strengthened by 15 centavos to 147.9 to the dollar on the free market. Mexican officials told the Embassy that the banks continue to be net purchasers of dollars and that the limit on the amount of dollars a bank can sell to a firm has been removed. The Embassy reports that a "grey" market with a rate of about 150 pesos to the dollar continues to exist. We believe Mexico City will monitor this market closely to be sure the free market rate does not diverge sharply from the "grey" rate. 25X1

-- Commerce Secretary Hector Hernandez announced that Mexico was not now considering membership in GATT. Hernandez,

who had supported GATT accession in 1980, said that because of current troubles in Mexican industry, joining now would cause another severe economic shock, which would bankrupt an unacceptably large number of manufacturers. Hernandez stated for the medium term Mexico's objective would be to implement a selective import substitution policy and to make petroleum exports complement non-petroleum exports. Other economic policymakers, including Central Bank President Miguel Mancera, have stated that 2. Mexico will maintain an undervalued peso to encourage export-orientated manufacturing industries. To implement this strategy will require major long-term investments to reorganize Mexican industry, which for years has 25X1 25X1 concentrated on the local market because of domestic incentives and the previously overvalued peso.

[redacted]

Sources:

1. Press, U.
2. B&A, EC01-82, C, OADR.
3. Mexico 01075, 202354Z Jan 83, C, Decl 1/20/89.
4. Mexico 01335, 261847Z Jan 83, C, Decl 1/25/89.
5. Monterrey 0143, 251800Z Jan 83, C, Impdet.

[redacted]

25X1

Distribution:
Original - Requestor
2 - ALA/PS
4 - OCPAS/IMC/CB
2 - Branch File